



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

AUDITS

IN THE MATTER OF THE APPROVAL OF)	
THE DEPARTMENT OF HUMAN SERVICES)	ORDER APPROVING DHS
(DHS) UNIVERSAL SERVICE FUND)	ADMINISTRATIVE BUDGET
ADMINISTRATIVE COST BUDGET)	
		DOCKET NO. EX00020091

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background/Procedural History

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. ("EDECA" or the "Act") provided that the Board establish a non-lapsing Universal Service Fund ("USF") to assist low income consumers with the payment of electric and gas bills. In its July 16, 2003 Order, the Board established a permanent statewide program through which funds for the USF and Lifeline programs are collected on a uniform basis from customers of all the electric and natural gas public utilities operating in the State. USF rates for the first program year became effective August 1, 2003 and were set to recover a total statewide USF program cost of \$33 million, of which \$3 million was earmarked for USF administrative expenses. The administrative expenses, at the time, were capped at \$3 million, which was 10% of the estimated first year USF program cost of \$30 million. At the time, there was no basis upon which to estimate administrative costs, and it was not unusual for assistance programs to use a flat rate of 10% for administrative costs. In the Board's April 30, 2003 Order, it stated on page 4 under the ordering section under 1:

"The USF program will be fully funded at \$30 million for the first year plus administrative expense capped at 10%. The one-time start-up costs will not be counted as administrative expenses and will not be subject to the cap. It is expected that administrative costs will level off after implementation."

It was also decided the \$3 million cap was to remain in effect in subsequent periods with any increase over said cap requiring Board approval in advance. In the Board's Order, dated July 16, 2003, at page 3, it was stated that "should the program exceed the \$30 million, any administration expenses above the 10% or \$3 million must be approved in advance by the Board:

The Board also directed in its July 16, 2003 Order that electric and gas utilities make an annual rate compliance filing in which the new USF and Lifeline rates are set by April 1 each year, including notice and public hearings, with any new tariffs to be effective July 1 in that same year.

The Department of Human Services (DHS) was designated by the Board in its April 30, 2003 Order to be the USF program administrator. As part of that decision it was understood that DHS would, in turn, contract with both the State Office of Information Technology (OIT) for computer related components of the program, and with the Department of Community Affairs (DCA) for coordination in implementing USF benefits. DHS as part of their contract with DCA for USF allocates funding to DCA for USF administrative costs. Specifically, a separate MOU between DHS and DCA (to which the Board is not a party) defines the cost-share relationship between the two agencies. None of the Board's USF Orders address the allocation of the USF administrative cost budget between DHS and DCA.

Since the USF administrative budget is comprised of several components, DHS as administrator of the USF program coordinates budgets from OIT and DCA. Said budget includes DHS staff salaries, and the anticipated cost for running the program, such the USF Hotline, administrative reviews of benefit determinations, and computer costs with respect to calculating benefits and sending relevant information to utilities and customers. These costs are separate and distinct from utility administrative expenses, which are to be evaluated separately in accordance with a rate proceeding. Typically, both DHS and DCA are expected to submit a budget; and actual expenditures, prior to the next year's USF budget or the Societal Benefits Charge (SBC) rates determined in the utility's annual USF rate compliance filing) for the next year. Thus far, neither agency (DHS or DCA) has submitted actual expenditures for 2005/2006, or a budget for 2006/2007.

Discussion

During the initial start-up of the USF program, the Board did not specifically approve the DHS USF administrative cost budget and its various subcomponents and on how DHS allocated funds to DCA. Instead, the Board approved USF rates, and those rates were based upon estimated USF benefits and DHS administrative costs, which were capped at \$3 million.

The aforementioned \$3 million cap on USF program administrative costs was initially set when the USF program only allowed for automatic enrollment, a method which did not require much DCA involvement. However, DCA and the local Community Action Program ("CAP") agencies have been providing USF related services since manual enrollment began in the 2004/2005

USF program year. According to DHS, DCA/CAP agency USF administrative costs were \$2,255,950 in 2004/2005 and the 2005/2006 DHS budget reflected an allocation of \$4,103,414 for DCA administrative costs. In addition, it was initially assumed that all USF administrative costs would be incremental to LIHEAP administrative costs; however, the costs are not necessarily incremental for the CAP agencies, because there are some months when CAP agencies process only USF applications because the LIHEAP application period has ended.

In June 2005, DHS submitted a proposed 2005/2006 USF administration budget. The budget indicated administration costs as follows:

DHS	\$1,113,665
DCA	\$4,103,414
OIT	<u>\$ 596,061</u>
TOTAL	\$5,813,140

This budget request exceeds the \$3 million cap. DHS/DCA have not submitting actual expenses, or supporting documentation.

CONCLUSIONS

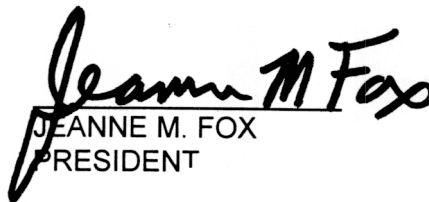
Since DHS and DCA have not provided supporting documentation for their 2005/2006 USF administrative cost budget, the Board can not at this time approve their 2005/2006 budget which is in excess the current \$3 million cap. However, when the necessary budget documentation is received from DHS and DCA, this matter can be revisited by the Board. As a result, the existing \$3 million administrative cost cap shall remain in force for the 2005/2006 USF program year until such time as proper justification and documentation is provided by DHS to support a higher amount.

The Board believes there is no basis in tying the DHS budget to a flat percentage of the total benefits administered. While the Board concedes that the amounts budgeted for benefits have increased substantially in successive years, with no corresponding increase in the USF administrative cap, the USF administrative budget should be considered adequate, with the burden upon DHS to show justification for a budget that would exceed the cap. In the event an increase in the DHS administrative cap is needed, Staff is to advise the Board and a specific review will take place.

Furthermore, to date, DHS has not submitted an administrative cost budget for the upcoming 2006/2007 USF program year. Accordingly, the existing \$3 million administrative cost cap amount should therefore be used for the purpose of determining the USF rates for the upcoming 2006/2007 program year and that in the absence of a DHS budget, the \$3 million administrative cost cap also remain in force for the 2006/2007 program year until such time as proper justification and documentation is provided by DHS to support a higher amount.

DATED: 6/9/06

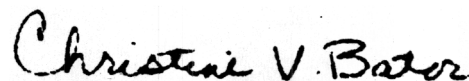
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document is a true copy of the original
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